

## Senate Bill No. 708

### CHAPTER 727

An act to amend Sections 10089.70, 10089.71, 10089.72, 10089.73, 10089.74, 10089.75, 10089.77, 10089.78, 10089.79, 10089.82, 10089.83, 10089.84, 12921.1, and 12921.3 of, and to add Sections 10089.3, 12921.9, and 12926.2 to, the Insurance Code, relating to insurance.

[Approved by Governor October 10, 2001. Filed  
with Secretary of State October 11, 2001.]

#### LEGISLATIVE COUNSEL'S DIGEST

SB 708, Speier. Insurance.

(1) Existing law provides for regulation of the business of insurance by the Insurance Commissioner.

Existing law requires the Department of Insurance to establish a program for the mediation of disputes between insureds and insurers arising out of the 1994 Northridge earthquake. This program is authorized to continue through January 1, 2005.

This bill would extend the operation of the program until January 1, 2006, and would expand it to include disputes arising out of an event for any insured peril that involves lines of insurance for residential and automobile coverage and any other insured loss the commissioner determines would be best served by the mediation process. The bill would make other changes to the mediation program.

(2) Existing law requires the commissioner to receive, investigate, and respond to complaints and inquiries relative to the handling of insurance claims by insurers.

This bill would provide that the commissioner may not decline to investigate complaints on various grounds, including that the insured is represented by an attorney or is involved in a civil action against an insurer, or that the complaint is from an attorney.

(3) Existing law sets forth various other duties and responsibilities of the commissioner and the department.

This bill would require the department to make public a letter or legal opinion signed by the commissioner or the department's chief counsel that was prepared in response to an inquiry from an insured or other person or entity and that discusses the application of the Insurance Code or regulations promulgated by the commissioner. The bill would define the term "extraordinary circumstances" for the purpose of the department determining noncompliance with the insurance laws and

regulations and determining appropriate penalties. The bill would impose limitations on the authority of the department to enter into settlement agreements referencing the existence of extraordinary circumstances for a period of more than 6 months. The bill would also require the department to adopt regulations relative to the training and accreditation of insurance adjusters in the evaluation of earthquake damage.

*The people of the State of California do enact as follows:*

SECTION 1. Section 10089.3 is added to the Insurance Code, to read:

10089.3. (a) The department shall adopt regulations setting forth standards governing the training of insurance adjusters in evaluating damage caused by earthquakes. For purposes of this section, the California Earthquake Authority shall make available to the Department of Insurance the standards used by the authority in order for the department to develop regulations that are consistent with the authority's standards. On or before December 31, 2004, insurers shall train and accredit adjusters in accordance with these standards. Thereafter, an insurer using one or more adjusters who are not trained and accredited in accordance with those standards shall submit the names of those adjusters to the department, along with the claim number of the claim adjusted by that adjuster. An adjuster trained and accredited by one insurer pursuant to this section shall not be required to receive training and accreditation again in order to adjust claims for a different insurer. An insurer using an adjuster who has been trained and accredited by another insurer pursuant to this section shall not be required to submit the name of that adjuster to the department.

(b) For purposes of this section, "insurance adjuster" shall include the following persons:

(1) Persons licensed pursuant to Chapter 1 (commencing with Section 14000) of Division 5.

(2) Employees of persons licensed pursuant to Chapter 1 (commencing with Section 14000) of Division 5 who perform insurance adjusting activities as defined in Section 14021.

(3) Employees of an insurer who perform insurance adjusting activities as defined in Section 14021.

SEC. 2. Section 10089.70 of the Insurance Code is amended to read:

10089.70. The department shall establish a program for the mediation of the disputes between insured complainants and insurers arising out of the Northridge earthquake of 1994 or any subsequent earthquake, and disputes arising under automobile collision coverage or



automobile physical damage coverage, in a policy as defined in Section 660. The program, with respect to the mediation of earthquake insurance claims, shall only apply to personal lines of insurance related to residential coverage. The goal of the program shall be to favorably resolve a statistically significant number of disputes sent to mediation under the program. This chapter does not apply to any dispute that turns on a question of major insurance coverage or a purely legal interpretation, or disputes involving the actions of an agent or broker in which the insurer is not alleged to have been responsible for the conduct, or any complaint the commissioner finds to be frivolous, or any dispute in which a party is alleged to have committed fraud.

SEC. 3. Section 10089.71 of the Insurance Code is amended to read:

10089.71. Any insured having a dispute with an insurer under a policy that qualifies for this program may file a written complaint with the department. The complaint shall indicate that the complainant has not been able to reach a satisfactory settlement of a claim with the insurer. The department shall, if deemed appropriate, notify the insurer against whom the complaint is made of the nature of the complaint, may request appropriate relief for the complainant, and may meet and confer with the complainant and the insurer in order to attempt resolution of the dispute.

SEC. 4. Section 10089.72 of the Insurance Code is amended to read:

10089.72. (a) If, after the department's intervention, the insurer and the insured do not reach agreement, the department may notify the insurer that in order to avoid referral to mediation, the insurer shall have 28 calendar days to resolve the dispute, unless the department, for good cause, extends the period by an additional 7 calendar days.

(b) The department may not refer a claim to mediation unless the amount claimed by the insured exceeds seven thousand five hundred dollars (\$7,500) and the amount in dispute exceeds two thousand dollars (\$2,000).

SEC. 5. Section 10089.73 of the Insurance Code is amended to read:

10089.73. If the dispute is not resolved within the time period prescribed by Section 10089.72, the insurer shall notify the department of the failure, and may include the reason for the failure. The insurer shall, within the time period prescribed by Section 10089.72, notify the department of its position if it believes that the dispute is not eligible for the mediation program.

SEC. 6. Section 10089.74 of the Insurance Code is amended to read:

10089.74. (a) If the insurer notifies the department of the failure to resolve the dispute, the department shall notify the insured of the insured's ability to request mediation and ask the insured whether the



insured requests mediation. If the insured responds affirmatively, the department shall refer the dispute to mediation.

(b) If the insurer fails to give the required notice to the department prior to the expiration of the time limits set forth in Section 10089.72, the department shall notify the insured of the insured's ability to request mediation and ask the insured whether the insured requests mediation. If the insured responds affirmatively, the department shall refer the dispute to mediation. The department may not refer a dispute to mediation if the matter turns upon any of the reasons or conditions set forth in Section 10089.70, relative to applicability, or if for other good cause the commissioner determines that mediation of the dispute is inappropriate.

(c) If the insured has filed a civil complaint, the insurer is excused from mediating under this chapter any claims or disputes involved in the civil action.

SEC. 7. Section 10089.75 of the Insurance Code is amended to read:

10089.75. (a) Any insurer may inform an insured who has filed a complaint with the department concerning a dispute that qualifies for this program of the existence of the mediation program and may ask the insured to seek mediation under this chapter jointly with the insurer. Any insurer may notify the department of any dispute arising out of a qualifying event that it believes may be appropriately resolved through the mediation program. The department, with respect to that notification, shall proceed as provided in subdivision (a) of Section 10089.74.

(b) Notwithstanding Section 10089.82, if the commissioner makes a finding that an individual insurer has engaged in unreasonable or arbitrary refusals to mediate, the commissioner shall have the authority to require that insurer to participate in mediation in all cases deemed by the commissioner appropriate for mediation under this chapter.

(c) Any insurer who has been ordered to participate in mediation on a mandatory basis may seek a review of the order by filing in a court of competent jurisdiction within 30 calendar days of the order. The commissioner's order to participate in mediation, however, may not be stayed during the pendency of any judicial proceeding for any period beyond 60 calendar days after the initial date of the order to participate. The basis for the commissioner's decision to require an insurer to participate in the mediation program shall not be made public unless review is sought. The commissioner's decision not to require an insurer to participate, including the basis for the decision, shall be made public.

(d) Any insured whose request to mediate his or her claim under this chapter was declined by an insurer may request the commissioner to require the insurer to participate in the mediation program and may seek



review in a court of competent jurisdiction of the commissioner's decision not to require the insurer to participate in the mediation program. The review shall be required to be sought within 30 calendar days after the commissioner's decision.

SEC. 8. Section 10089.77 of the Insurance Code is amended to read:

10089.77. The department shall contract with a diverse pool of mediators for the provision of mediation services. The contractors shall be qualified mediators who meet standards established by the commissioner. The commissioner shall establish standards in consultation with consumer groups, policyholder groups, mediators, alternative dispute resolution groups, insurers, and the State Bar. These standards shall include:

(a) Mandatory training that may be provided by the department, which shall include, at a minimum, the legal rules for insurance policy interpretation and the rights of insureds under California law, and methods of determining costs of construction and reconstruction and costs of automobile repair in given geographical areas.

(b) A requirement that no mediator participating in this program may have business, familial, contractual, or other affiliation with, or financial interest in, the insured, or in any insurer, insurance agent, or agency. For purposes of this subdivision, an investment in a mutual fund that holds insurer stocks is not a financial interest. Financial interest does not include prior representation of, or an employment or contractual relationship with a law firm or lawyer who represents, one or more insurers or who represents insurance agents in connection with their business affairs, provided the law firm or lawyer has not previously represented any of the parties to the mediation.

However, any prior representation, employment, or contractual relationship shall be disclosed to the parties to the mediation. If any party objects to the mediator because of the prior representation, employment, or contractual relationship, the department shall dismiss that mediator and select a new mediator. An objection under this subdivision does not limit a party's right to object once under subdivision (d).

(c) A requirement that no mediator participating in this program may be either a lawyer or an employee of a lawyer or law firm that has represented any party to the mediation in the previous 36 months, or a person who has a business, familial, contractual, or other affiliation with a lawyer or law firm that has represented any party to the mediation in a lawsuit against the insurer in the last 36 months.

(d) Each party to the mediation may object once to the mediator assigned by the department. If a party objects to the mediator, the department shall dismiss the mediator and assign another mediator.

SEC. 9. Section 10089.78 of the Insurance Code is amended to read:



10089.78. Upon receipt of a complaint, the mediation service, to the extent possible, shall issue a notice to the insured and the insurer setting a date and time within 21 calendar days of the date of the notice for commencement of a mediation conference. The mediator shall make all reasonable efforts to schedule the mediation at a time agreeable to both parties. The notice shall inform the parties that the cost of mediation will be borne by the insurer, except to the extent provided in Section 10089.81. The notice shall also state that in the event of a proposed settlement the insured may have three business days in which to rescind the agreement, as specified in subdivision (c) of Section 10089.82.

SEC. 10. Section 10089.79 of the Insurance Code is amended to read:

10089.79. (a) The costs of mediation shall be reasonable, and shall be borne by the insurer, except as provided in Section 10089.81. The commissioner may set a fee not to exceed seven hundred dollars (\$700) for each dispute mediated.

(b) The administrative expenses for the mediation program shall be paid from existing resources available to the department. If additional resources are required by the department, those resources shall be made available by an annual appropriation in the Budget Act.

SEC. 11. Section 10089.82 of the Insurance Code is amended to read:

10089.82. (a) An insured may not be required to use the department's mediation process. An insurer may not be required to use the department's mediation process, except as provided in Section 10089.75.

(b) Neither the insurer nor the insured is required to accept an agreement proposed during the mediation.

(c) If the parties agree to a settlement agreement, the insured will have three business days to rescind the agreement. Notwithstanding Chapter 2 (commencing with Section 1115) of Division 9 of the Evidence Code, if the insured rescinds the agreement, it may not be admitted in evidence or disclosed unless the insured and all other parties to the agreement expressly agree to its disclosure. If the agreement is not rescinded by the insured, it is binding on the insured and the insurer, and acts as a release of all specific claims for damages known at the time of the mediation presented and agreed upon in the mediation conference. If counsel for the insured is present at the mediation conference and a settlement is agreed upon that is signed by the insured's counsel, the agreement is immediately binding on the insured and may not be rescinded.

(d) This section does not affect rights under existing law for claims for damage that were undetected at the time of the settlement conference.



(e) All settlements reached as a result of department-referred mediation shall address only those issues raised for the purpose of resolution. Settlements and any accompanying releases are not effective to settle or resolve any claim not addressed by the mediator for the purpose of resolution, nor any claim that the insured may have related to the insurer's conduct in handling the claim.

Referral to mediation or the pendency of a mediation under this article is not a basis to prevent or stay the filing of civil litigation arising in whole or in part out of the same facts. Any applicable statute of limitations is tolled for the number of days beginning from the notification date to the insurer pursuant to Section 10089.72, until the date on which the mediation is either completed or declined, or the date on which the insured fails to appear for a scheduled mediation for the second time, or, in the event that a settlement is completed, the expiration of any applicable three business day cooling off period.

SEC. 12. Section 10089.83 of the Insurance Code is amended to read:

10089.83. (a) On or before August 1 of each year in which this program is in effect, the commissioner shall issue a report on the status of the program in the prior year, including statistics about the number of cases suitable for mediation, the number sent to mediation, and the number accepted, as well as declined, by the insurers, and other similar information concerning the operation of the program.

(b) At six-month intervals, the department shall collect from the mediators with which it contracts for this service the following information: the number of persons to whom mediation was offered, the number of insurers that accepted and declined mediation, the number of settlements, and of those settlements, the number rejected within the three business day cooling off period. For each settlement, the mediation service shall also report the amount initially claimed by the consumer and the amount agreed to be paid, if any, by the insurer or other party.

(c) The department may adopt regulations, including reporting requirements, in the commissioner's discretion, to implement this chapter. The regulations shall be adopted as emergency regulations pursuant to Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code. The adoption of the regulations is deemed necessary for the immediate preservation of the public peace, health or safety, or general welfare.

SEC. 13. Section 10089.84 of the Insurance Code is amended to read:

10089.84. This chapter shall remain in effect until January 1, 2006, and as of that date is repealed, unless a later enacted statute, which is enacted before January 1, 2006, deletes or extends that date. Any case





referred to mediation by the department prior to January 1, 2006, shall be mediated under this chapter whether or not the mediation has been completed prior to January 1, 2006. No later than October 1, 2004, the commissioner shall report to the Governor and the Legislature on whether the program should be extended, expanded, terminated, or otherwise modified and shall include specific findings regarding the use of the program by insureds and insurers.

SEC. 14. Section 12921.1 of the Insurance Code is amended to read:

12921.1. (a) The commissioner shall establish a program on or before July 1, 1991, to investigate complaints and respond to inquiries received pursuant to Section 12921.3, to comply with Section 12921.4, and, when warranted, to bring enforcement actions against insurers. The program shall include, but not be limited to, the following:

(1) A toll-free number published in telephone books throughout the state, dedicated to the handling of complaints and inquiries.

(2) Public service announcements to inform consumers of the toll-free telephone number and how to register a complaint or make an inquiry to the department.

(3) A simple, standardized complaint form designed to assure that complaints will be properly registered and tracked.

(4) Retention of records on complaints for at least three years after the complaint has been closed.

(5) Guidelines to disseminate complaint and enforcement information on individual insurers to the public, that shall include, but not be limited to, the following:

(A) License status.

(B) Number and type of complaints closed within the last full calendar year, with analogous statistics from the prior two years for comparison. The proportion of those complaints determined by the department to require that corrective action be taken against the insurer, or leading to insurer compromise, or other remedy for the complainant, as compared to those that are found to be without merit. This information shall be disseminated in a fashion that will facilitate identification of meritless complaints and discourage their consideration by consumers and others interested in the records of insurers.

(C) Number and type of violations found, by reference to the line of insurance and the law violated.

(D) Number and type of enforcement actions taken.

(E) Ratio of complaints received to total policies in force, or premium dollars paid in a given line, or both. Private passenger automobile insurance ratios shall be calculated as the number of complaints received to total car years earned in the period studied.





(F) Any other information the department deems is appropriate public information regarding the complaint record of the insurer that will assist the public in selecting an insurer. However, nothing in this section shall be construed to permit disclosure of information or documents in the possession of the department to the extent that the information and those documents are protected from disclosure under any other provision of law.

(6) Procedures and average processing times for each step of complaint mediation, investigation, and enforcement. These procedures shall be consistent with those in Article 6.5 (commencing with Section 790) of Chapter 1 of Part 2 of Division 1 for complaints within the purview of that article, consistent with those in Article 7 (commencing with Section 1858) of Chapter 9 of Part 2 of Division 1 for complaints within the purview of that article, and consistent with any other provisions of law requiring certain procedures to be followed by the department in investigating or prosecuting complaints against insurers.

(7) A list of criteria to determine which violations should be pursued through enforcement action, and enforcement guidelines that set forth appropriate penalties for violations based on the nature, severity, and frequency of the violations.

(8) Referral of complaints not within the department's jurisdiction to appropriate public and private agencies.

(9) Complaint handling goals that can be tested against surveys carried out pursuant to subdivision (a) of Section 12921.4.

(10) Inclusion in its annual report to the Governor, required by Section 12922, detailed information regarding the program required by this section, that shall include, but not be limited to: a description of the operation of the complaint handling process, listing civil, criminal, and administrative actions taken pursuant to complaints received; the percentage of the department's personnel years devoted to the handling and resolution of complaints; and suggestions for legislation to improve the complaint handling apparatus and to increase the amount of enforcement action undertaken by the department pursuant to complaints if further enforcement is deemed necessary to insure proper compliance by insurers with the law.

(b) The commissioner shall promulgate a regulation that sets forth the criteria that the department shall apply to determine if a complaint is deemed to be justified prior to the public release of a complaint against a specifically named insurer.

(c) The commissioner shall provide to the insurer a description of any complaint against the insurer that the commissioner has received and has deemed to be justified at least 30 days prior to public release of a report



summarizing the information required by this section. This description shall include all of the following:

- (1) The name of the complainant.
- (2) The date the complaint was filed.
- (3) A succinct description of the facts of the complaint.
- (4) A statement of the department's rationale for determining that the complaint was justified that applies the department's criteria to the facts of the complaint.

(d) An insurer shall provide to the department the name, mailing address, telephone number, and facsimile number of a person whom the insurer designates as the recipient of all notices, correspondence, and other contacts from the department concerning complaints described in this section. The insurer may change the designation at any time by providing written notice to the Consumer Services Division of the department.

(e) For the purposes of this section, notices, correspondence, and other contacts with the designated person shall be deemed contact with the insurer.

SEC. 15. Section 12921.3 of the Insurance Code is amended to read:

12921.3. (a) The commissioner, in person or through employees of the department, shall receive complaints and inquiries, investigate complaints, prosecute insurers when appropriate and according to guidelines determined pursuant to Section 12921.1, and respond to complaints and inquiries by members of the public concerning the handling of insurance claims, including, but not limited to, violations of Article 10 (commencing with Section 1861) of Chapter 9 of Part 2 of Division 1, by insurers, or alleged misconduct by insurers or production agencies.

(b) The commissioner shall not decline to investigate complaints for any of the following reasons:

- (1) The insured is represented by an attorney in a dispute with an insurer, or is in mediation or arbitration.
- (2) The insured has a civil action against an insurer.
- (3) The complaint is from an attorney, if the complaint is based upon evidence or reasonable beliefs about violations of law known to an attorney because of a civil action.

(4) The commissioner may defer the investigation until the finality of a dispute, mediation, arbitration, or civil action involving the claim is known.

(c) The commissioner, as he or she deems appropriate, and pursuant to Section 12921.1, shall provide for the education of, and dissemination of information to, members of the general public or licensees of the department concerning insurance matters.



SEC. 16. Section 12921.9 is added to the Insurance Code, to read:

12921.9. (a) A letter or legal opinion signed by the Commissioner or the Chief Counsel of the Department of Insurance that was prepared in response to an inquiry from an insured or other person or entity and that discusses either generally or in connection with a specific fact situation the application of the Insurance Code or regulations promulgated by the commissioner shall be made public. The department may redact the name, address, policy number, and other identifying information regarding a particular insured or other person or entity from the letter or legal opinion when it is made public.

(b) A letter or legal opinion made public pursuant to this section shall not be construed as establishing an agency guideline, criterion, bulletin, manual, instruction, order, standard of general application, rule, or regulation, as those terms are described in Sections 11340.5 and 11342.600 of the Government Code.

SEC. 17. Section 12926.2 is added to the Insurance Code, to read:

12926.2. (a) As used in this section, “extraordinary circumstances” means circumstances outside of the control of a licensee that severely and materially affect the licensee’s ability to conduct normal business operations.

(b) In determining noncompliance with this code and regulations adopted pursuant to this code, and appropriate penalties, if any, the commissioner may consider evidence concerning the existence of extraordinary circumstances.

(c) A settlement agreement between the commissioner and an insurer may not contain a provision referencing the existence of extraordinary circumstances relative to the subject matter at issue, unless the agreement specifies the precise period of time during which extraordinary circumstances were in existence. Except as provided in subdivision (d), extraordinary circumstances may not be stated to exist for a duration of more than six months.

(d) A settlement agreement may concede the existence of extraordinary circumstances for a period of time exceeding six months if all of the following conditions are met:

(1) The commissioner makes a finding in the agreement that extraordinary circumstances existed for more than six months, and documents in that finding facts supporting that conclusion.

(2) The finding identifies the public purpose justifying the extension of extraordinary circumstances beyond the six-month period.



(3) The beginning and ending date, by month and year, of the commencement and termination of the extraordinary circumstances are identified.

